

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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In the Matter of Northern States Power
Company d/b/a Xcel Energy 2001 All-Source
Request for Proposals

ISSUE DATE: March 6, 2003

DOCKET NO. E-002/M-01-1618

ORDER ALLOWING THE BIDDING
PROCESS TO PROCEED AND REQUIRING
DISCUSSIONS TO ANALYZE FUTURE
PROCESSES

PROCEDURAL HISTORY

Minnesota's resource planning statute and rules require certain electric utilities to report on the projected energy needs of their service areas over the next 15 years and their plans for meeting those needs. Minn. Stat. § 216B.2422 and Minn. Rules Chapter 7843. In approving the 2000-2014 Resource Plan of Northern States Power Company d/b/a Xcel Energy (Xcel), the Commission authorized Xcel to meet future demand for electricity through a competitive bidding process.¹

On December 6, 2001, Xcel issued its 2001 All-Source Request for Proposals to fill its resource needs. Many entities submitted proposals for Xcel's evaluation.

On November 1, 2002, Xcel issued its Short-List Selection Report, identifying the projects that Xcel was still considering for adoption.

On December 6, 2002, the Izaak Walton League of America (IWLA) filed comments raising questions about the assumptions used by Xcel in selecting projects for its Short-List Selection Report.

¹ *In the Matter of Northern States Power Company's Application for Approval of its 2000-2014 Resource Plan*, Docket No. E-002/RP-00-787 ORDER APPROVING XCEL ENERGY'S 2000-2014 RESOURCE PLAN, AS MODIFIED (August 29, 2001).

On December 20, 2002, Xcel and the Minnesota Department of Commerce (the Department) filed comments replying to IWLA's comments.

The matter came before the Commission on February 6, 2003.

FINDINGS AND CONCLUSIONS

I. XCEL'S APPROVED COMPETITIVE BIDDING PROCESS

Through a series of Orders,² Xcel's bidding process has come to have the following five steps.

- Step 1: The Commission approves a list of auditors. Xcel may add auditors to the list upon notifying the Commission, the Department and the Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG) (collectively, the parties). The new auditors need not be approved, but may be challenged by the Parties.
- Step 2: Xcel files a draft Request for Proposals (RFP) with the Commission and serves it on the parties. Thirty days later, Xcel may issue the RFP to potential bidders unless a party has requested an investigation.
- Step 3: Xcel files with the Commission and serves on the parties its short-list selection including a report justifying its selection. The auditors certify that the selection process was fair. A party may challenge the selection within 15 days upon showing that a bidder was erroneously omitted from the list due to significant unfairness.
- Step 4: Xcel files with the Commission and serves on the parties 1) its final selection of vendor(s), 2) a report justifying the selection, and 3) a certification by the auditor that Xcel's selection process was fair. A party may request an investigation of Xcel's final selection within 30 days; if so, the Commission has 30 days to initiate an investigation.

² *In the Matter of a Request by Northern States Power Company to Modify its Competitive Bidding Process*, Docket No. E-002/M-98-646, ORDER (August 25, 1998); *In the Matter of the Petition of Northern States Power Company for Review of its 1999 All Source Bid Request Proposals*, E-002/M-99-888, ORDER GRANTING INTERVENTION (September 29, 2000), pages 1-2, and ORDER REJECTING REQUESTS FOR FURTHER INVESTIGATION, APPROVING FINAL BID SELECTIONS, AND OPENING DOCKET REGARDING EXTERNALITY VALUES (February 7, 2001), pages 1-2.

Step 5: The Commission approves the final Power Purchase Agreement (PPA) between Xcel and the winning vendor(s).

The current process has reached Step 3. As noted above, Xcel issued its Short-List Selection Report on November 1, 2002.

II. IWLA'S COMMENTS

A. Concerns

While expressing appreciation for Xcel's support for wind power generally, IWLA identifies three aspects of Xcel's evaluation process that may have unwittingly skewed Xcel's decisions against projects involving wind-powered generators.

1. Natural Gas Assumptions

IWLA argues that Xcel's forecast of natural gas prices was not disclosed, and may be too low. Since roughly two-thirds of the short-list projects are fueled with natural gas, any change in the forecast of natural gas prices might produce a change in the list of selected projects.

2. Accreditation for Wind Capacity

Xcel ranks projects on the basis of cost per kilowatt of generating capacity. But in conducting this analysis, Xcel discounts the capacity of wind-powered generators by 90%. Allegedly the Mid-Continent Area Power Pool (MAPP)³ uses this convention to reflect the fact that wind-powered generators are less reliable than other generators because they must rely on the availability of wind. IWLA does not dispute the need for some adjustment to the accreditation of wind-powered generators, but argues that new evidence suggests the 90% discount may be too severe.

3. Transmission Assumptions

Some proposed projects would require increased investment in facilities to transmit power. IWLA argues that Xcel's report does not adequately explain how Xcel incorporates those costs into its analysis of proposed projects.

³ MAPP is an association of electric utilities and other electric industry participants in the upper Midwest. In the interest of promoting electric reliability, the utility members of MAPP pledge to maintain a certain level of excess generating capacity for use in case of emergencies. In this context, MAPP evaluates the capacity of electric generators.

B. Proposed Remedy

IWLA asks the Commission and the parties to consider its concerns about the process for selecting projects for Xcel's short list, especially as that process is used in the future. As a stopgap remedy for use in the current round of bidding, IWLA suggests that the Commission add to the short list some wind projects that narrowly missed qualifying for the short list.

III. REPLIES

The Department and Xcel generally dispute IWLA's allegations and oppose the proposed remedy. They note that the selection process has been subject to review by an independent auditor, the Department, and the Residential and Small Business Utilities Division of the Minnesota Office of Attorney General. They also note that IWLA does not allege that any bidder was unfairly excluded; IWLA merely asserts that if Xcel had used different criteria, it might have selected different projects. They argue that this is not a sufficient basis to upset the current bidding process.

Xcel asserts that it evaluated the proposals using the approach agreed upon by the "Fairness to Renewables" workgroup in which IWLA participated. The workgroup issued its report on July 17, 2001, setting forth the methods Xcel would incorporate into its All-Source RFPs to ensure that projects relying on renewable sources of energy would receive a fair evaluation.⁴

Additionally, Xcel argues that it used reasonable assumptions in evaluating proposals. Xcel even varied its assumptions over a range of possibilities. For example, Xcel would evaluate the cost-effectiveness of a proposal assuming that natural gas prices were as projected, and again assuming that prices were higher than projected, and a third time assuming that prices were lower than projected. Xcel considered the outcome of all these scenarios when making its short-list selections.

The Department and Xcel note that the convention of discounting the accredited capacity of wind-powered generators is established by MAPP, not Xcel. They argue that MAPP is a knowledgeable and authoritative source for such transmission policies.

Finally, the Department disputes IWLA's complaint regarding the cost of transmission upgrades, stating that Xcel's transmission evaluation methodology is clearly set forth in the short-list

⁴ *In the Matter of the Application of Northern States Power Company for Approval of its 1998 Resource Plan*, Docket No. E-002/RP-98-32.

report's Exhibit 3. Xcel acknowledges that the Midwest Independent System Operator (MISO)⁵ is currently analyzing the need for transmission upgrades. But this analysis was not then complete; in the meantime Xcel developed its own estimates based on engineering principles and Xcel's experience. Xcel applied its transmission analysis uniformly to all proposed projects.

For the foregoing reasons, the Department and Xcel ask the Commission to deny IWLA's request for relief.

IV. COMMISSION ACTION

In summary, IWLA does not allege that Xcel violated the All-Source Bidding Process. Rather, IWLA argues that the process should be improved to reflect a growing knowledge of wind power and its role in the larger electric system. IWLA seeks two forms of relief: review of the process for evaluating future bids, and modification the short list in the current bidding cycle.

Regarding the request to modify the short list in the current bidding cycle, IWLA's petition will be denied. As noted above, the all-source bidding process has evolved through a series of public dockets, sometimes including the participation of IWLA itself. And the Commission has previously emphasized that adherence to the announced bidding process enhances confidence in the process.⁶ Given the long record supporting the current process, and the public policy for using a uniform process throughout a bidding cycle, a party seeking Commission intervention bears a heavy burden of persuasion. On the basis of the current state of the record, the Commission cannot reach the conclusion that immediate intervention is warranted here.

Regarding the request to review of the bidding process for use in future bidding cycles, however, IWLA's petition will largely be granted. Where time permits and bidders have not yet acted in reliance on the current bidding process, the Commission is willing to allow an investigation of IWLA's concerns. The Commission will direct all parties to work together in addressing these

⁵ The MISO is a voluntary nonprofit association of the owners of electric transmission facilities, certified as a Regional Transmission Organization pursuant to 18 C.F.R. Part 35 to provide reliable, non-discriminatory and efficiently-priced transmission services to support competitive regional wholesale power markets. The Commission authorized the MISO to exercise operational control of most of Minnesota's transmission facilities. See, for example, *In the Matter of the Petition for Approval to Transfer Functional Control of Certain Transmission Facilities to the Midwest Independent System Operator*, Docket No. E-002/M-00-257 ORDER AUTHORIZING TRANSFER WITH CONDITIONS (May 9, 2002).

⁶ *In the Matter of a Petition by Northern States Power Company d/b/a Xcel Energy for Review of its Phase IV Request for Proposals for Wind Generation*, Docket No. E-002/M-00-622 ORDER ALLOWING THE BIDDING PROCESS TO PROCEED AND DIRECTING DISCUSSIONS TO IMPROVE COMMUNICATIONS (February 11, 2002)

matters. Whether this effort produces a further evolution in the bidding process, or merely greater transparency in the current process, the analysis will provide participants with greater confidence in the process's fairness.

In particular, the Commission observes that Xcel is a member of MAPP. The Commission will encourage Xcel to start a dialogue within MAPP to encourage a review and, if appropriate, modification to the organization's practices with respect to the accreditation of capacity from wind-powered generators.

The Commission will so order.

ORDER

1. The request of the Izaak Walton League of America for a review and modification of the evaluation assumptions of Northern States Power Company d/b/a Xcel Energy is denied.
2. The parties shall work together outside of the current all-source bidding process to improve Xcel's future Request for Proposals and short-list evaluations.
3. Xcel is encouraged to open a dialogue within the Mid-Continent Area Power Pool to encourage a review and, if appropriate, modification to the organization's practices with respect to the accreditation of capacity from wind-powered generation.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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